

FORWARD

Attached is the revised Strategic Plan of the Office of Inspector General of the Securities and Exchange Commission for fiscal years 2003 - 2007. The plan describes the Office's goals and objectives and presents measures that the Office will use to gauge its performance.

These strategic revisions are the outcome of the direct participation of all Office staff, feedback from clients, and our experience with the previous plan. The plan replaces the previous Strategic Plan that covered calendar years 1999 - 2003. We expect to revise the plan as appropriate.

As described in the plan, the Office is maintaining a risk-based approach to its work. This has allowed the Office to evolve from an appraisal activity focusing on controls into a program of integrated risk assessment and mitigation, conducted in concert with Commission management.

Our stated vision directly ties the Office's goals and objectives to the Commission's strategic and performance plans. Our vision remains to:

“Increase the likelihood that Commission objectives are achieved”

To accomplish this vision, we have adopted the following goals:

- Mitigate operational impediments to achieving Commission goals and objectives,
- Promote individual and agency integrity, and
- Deliver cost-effective, quality service.

The Office has always received the fullest cooperation and courtesy from the Commission. We believe this reflects the high integrity and motivation of Commission staff and management. We sincerely appreciate and seek to maintain their confidence.

Walter Stachnik
Inspector General

Mission

Although independent organizationally and in its approach, the Office of Inspector General exists to support the Commission and Congress in meeting their responsibilities and achieving their goals and objectives with respect to oversight of the securities industry. Specifically, the Commission's mission-related goals are to:

- Protect investors,
- Maintain fair, honest, and efficient markets,
- Facilitate capital formation, and
- Sustain and improve organizational excellence.

The Office also helps improve the performance and accountability of Commission programs in a variety of ways (*e.g.*, strengthening the security of Commission information, improving the reporting of performance data, and facilitating the implementation of crosscutting, government-wide initiatives).

The Inspector General Act of 1978 (as amended) provides direction for how these purposes are to be achieved by specifying the responsibilities of the Office:

- Conduct and supervise independent and objective audits, investigations, and other reviews of Commission programs and operations,
- Promote economy, efficiency, and effectiveness within the Commission,
- Prevent and detect fraud, waste, and mismanagement in the Commission's programs and operations,
- Review and make recommendations regarding improvements to existing and proposed legislation and regulations relating to Commission programs and operations, and
- Keep the Chairman and Congress fully and currently informed of problems.

Vision

“Increase the likelihood that Commission goals and objectives are achieved”

In pursuing this vision, we recognize that successful achievement of our mission depends on balancing the expectations of a variety of clients with different needs and values:

Primary Stakeholders

The Chairman, Congress, and citizens are the Office’s primary stakeholders. The value of Office products and services vary among stakeholders and over time. However, in general, the primary stakeholders expect the Office to:

- Deliver cost-effective, quality services,
- Understand and mitigate operational impediments to the successful implementation of Commission goals and objectives, and
- Maintain effective accountability and communication.

Direct Recipients of Services

Managers and staff working in Commission operations and programs are the direct recipients of our services and products. From their perspectives, to be successful, the Office must:

- Facilitate the implementation of practical, constructive, and effective solutions, and
- Maintain trusting relationships and effective communications.

Central Agencies

Central agencies include Congress, the Office of Management and Budget (OMB), the General Accounting Office (GAO), and the Inspector General community (the Executive and President’s Councils of Integrity and Efficiency). Central agencies set government-wide management agendas and establish initiatives to achieve their goals and objectives. From their viewpoints, the Office of Inspector General must:

- Understand and support government-wide management initiatives.

Core Values

Several core values determine how we accomplish our mission, balance the delivery of services to our clients, and conduct the daily operation of our work.

Integrity: Consistent with the tenets of the IG Act, the Office takes an independent and nonpartisan approach to its activities. By meeting high professional standards in the conduct of its work, and promoting exemplary personal integrity in its staff, the Office has established a reputation of trust and objectivity.

Fairness: Our respect for Commission staff and managers is directly reflected in the way we treat them. In audits, we focus on finding constructive solutions that can be readily implemented, rather than finding someone to blame, and we assume that staff are committed to improving their own operations. Presumption of innocence (in the absence of evidence to the contrary and tempered by professional skepticism) and respect for the rights of subjects characterize our investigations.

Relevancy: The Office maintains its focus on important issues and opportunities by incorporating Commission objectives, as well as government-wide initiatives, as part of its mission and vision. This approach also integrates inevitable changes in Commission goals and objectives, as well as crosscutting initiatives, as the Commission evolves to meet industry changes.

Communication: To achieve Office goals, effective communication with the Chairman and Congress, as well as Commission managers and staff and external stakeholders, is critical. We strive to operate transparently (with due consideration to privacy, legal, and related considerations) and predictably. As a result, we receive candid information and opinions from Commission staff and management who are interested in improving their operations.

Competency: The number of degrees and certifications earned by its staff, and completion of extensive continuing education (in excess of that required by professional standards) are measures of the Office's professional competency. Other critical competencies are understanding the risks to achieving Commission goals and objectives, maintaining of flexible strategies to mitigate impediments to goal achievement, and targeting resources to achieve Office goals.

Strategic Environment

During the period of 2003 - 2007, we expect that the Commission will continue to operate in a vigorous environment of industry change, legislative reform, increased performance accountability, and internal management transformation.

Office of Inspector General Resources

The Office consists of nine professional staff and one part-time administrative assistant. Two attorneys conduct investigations and review statutes and regulations within the context of audits. Five senior auditors are assigned one or more Commission programs or strategic support functions. They are responsible for managing audit resources within their areas of responsibility (including assessing operational risks, preparing audit plans, and conducting or supervising audits). The Deputy Inspector General supervises the auditors and conducts audits and/or investigations, as assigned. The Inspector General manages the Office, supervises the investigations and, as time permits, conducts or supervises audits.

The Office does not expect its staffing numbers to mirror the recent growth of the Commission. This reflects a conscious decision to use outside contractors to augment professional staff. We plan to use Office staff to assess risk, prepare audit programs, and conduct or supervise audits. Contractors will provide technical expertise and other resources on an “as needed” basis.

A notable exception to this approach, as described below, would be additional staff needed to conduct annual audits of Commission financial statements. Depending on the outcome of a feasibility study, we may request additional staff for this purpose, since inherent conflicts of interest prevent our contracting for these services.

To date, contracting funds have varied from approximately \$40,000 to \$475,000 annually. These funds are used primarily for contracts with independent accounting firms to conduct audits of Commission programs or support functions. A small portion of these funds has been used to procure forensic or similar services for investigations. We plan to continue to use contractors (especially in technical, information technology audits) to keep up with the growth in the size and complexity of Commission operations and information technology.

Commission Chairmen have been extremely supportive of the Office and have provided needed funding on short notice. Travel, training, and contracting resources have been transferred to the Office within a fiscal year to provide immediate funding for high priority projects (*e.g.*, investigative travel). This support has allowed the Office to carry out its mission effectively, despite unanticipated events.

Changes at the Commission

The Commission has recently undergone significant internal changes. Unprecedented budget growth, new hiring authorities, staff pay parity, a new performance appraisal system, unionization, and an upcoming move to a new headquarters building have had, or will have, a major impact on Commission

operations. As a result of these changes, as well as challenges from the recent revelations of material fraud in the securities marketplace and the Congressional legislative response, the Commission is recasting its management approach. The new approach should have a significant impact on Commission goal setting and achievement and consequently Office activities.

Our strategy of identifying and mitigating impediments to the achievement of Commission goals and objectives will accommodate the recent changes at the Commission.

Securities Industry Changes

After a period of unprecedented growth, the securities industry is trying to respond to a period of instability. Accounting and corporate governance issues are at the forefront of the concerns. However, a large number of other issues (*e.g.*, globalization, the impact of information technology on markets) must be addressed simultaneously.

Office Response

The Office of Inspector General will continue to respond to the changing environment by focusing most of its resources on the Commission's program operations, while still ensuring that financial, information technology, and administrative controls remain adequate. Especially with respect to Commission programs, we recognize that informal management controls (*e.g.*, professional judgment, communication, and integrity) are critical to operations. We will continue our risk-oriented approach to adding value.

Strategic Goals and Objectives

Given our mission, vision, core values, and the strategic environment, the Office has defined three strategic goals and nine corresponding objectives that will lead our work during the next five years. These goals and objectives will provide a focus for our planning and other activities.

GOAL 1: MITIGATE OPERATIONAL IMPEDIMENTS TO ACHIEVING COMMISSION GOALS AND OBJECTIVES

Congress and the Commission define the goals and objectives of the agency. Our vision is to increase the likelihood that these goals and objectives are achieved. Four strategic objectives will drive our efforts.

Objective A: Enhance Commission Program Operations

We expect the majority of our audit resources over the next five years will focus on program operations. Commission programs are assigned to three senior auditors who rotate assignments periodically. They are accountable for identifying impediments to achieving operational goals and objectives, developing audit plans to minimize the effects of these impediments, and conducting or supervising the audits, inspections, or other work.

Specific assignments are necessarily driven by Commission program initiatives, industry developments, and legislative reforms. Government-wide strategic planning and performance measurement efforts will also impact this work.

Strategies

- Assess operational impediments to achieving the goals and objectives of each Commission program on a continuous basis
- Prioritize the assessment results as the primary planning criterion for audits, inspections, and other work
- Conduct audits, inspections, and other work to identify methods to mitigate important impediments to the achievement of program goals and objectives
- Facilitate the implementation of practical, cost-effective mitigation recommendations

Objective B: Improve Information Technology Management

Several years ago, the Commission changed the structure of its information technology (IT) organization. Contractors now perform most of the programming and other technical tasks; Commission staff administer and manage the contracts.

In addition, the Commission's information technology budget has recently increased significantly.

To date, the Office has focused on IT security, capital investment decision-making, contract administration, and project management. Our use of GAO's IT investment maturity model as audit criteria has helped management focus their efforts in these areas. Variations on these topics will likely remain the Office's focus over the next five years.

One senior technical auditor will conduct the overall assessment plan, supervise contractor auditors, and conduct audits. We expect IT audits to continue to consume the majority of our contract audit funds.

Strategies

- Facilitate Commission achievement of the strategic security goals in the Federal Information Security Management Act and OMB guidance
- Verify the ability of the contracting process (*e.g.*, contract administration, project management) to deliver cost-effective IT solutions to Commission programs
- Focus IT audit resources on migrating the Commission to stage 5 of GAO's "Information Technology Investment Management Framework for Assessing and Improving Process Maturity"
- Assess the ability of the capital investment decision-making process to identify and deliver cost-effective IT solutions

Objective C: Facilitate Commission Management Improvement Initiatives

In order to employ additional budget resources effectively and meet the challenges created by recent changes, the Commission is implementing a series of significant management changes. Consistent with provisions of the Inspector General Act, the Office will continue to provide objective assessments to Commission managers and recommend courses of action. Much of this work will consist of inspections and evaluations related to Commission management initiatives. In addition, we will evaluate Commission central support functions. One senior auditor will divide her time between this objective and objective D below.

Strategies

- Understand and support planned Commission management initiatives
- Provide relevant, objective assessments that will facilitate achievement of the initiatives' goals and objectives
- Verify the efficiency and effectiveness of central support functions

Objective D: Enhance Financial Management and Accountability

Annual Financial Statement Audit

Passage of the Accountability of Tax Dollars Act of 2002 (which requires annual audits of the Commission's financial statements) accelerated on-going efforts by the Commission and the Office of Inspector General to strengthen Commission financial management. The statute specifically assigns responsibility for completing this audit to the Office of Inspector General.

Because of inherent conflicts of interest (the Commission oversees the accounting profession), the Office of Inspector General concluded that contracting with an external independent accounting firm would not satisfy the intent of the legislation. Moreover, because of time constraints, the Office could not effectively obtain and develop the necessary expertise to conduct the initial financial statement audits. Accordingly, we requested that the General Accounting Office conduct the initial financial statement audits of the Commission. Recognizing the importance of independent and competent audits of Commission financial statements, GAO agreed to the request.

The Office will observe the GAO audit team as it conducts the initial audits. We plan to evaluate the feasibility of developing the necessary expertise and obtaining additional resources to conduct future audits using Inspector General staff, thereby freeing GAO audit resources for work more directly related to GAO strategic goals.

Strategies

- Complete arrangements for initial annual financial statement audits by the General Accounting Office
- Determine the feasibility of conducting future audits using Office of Inspector General staff
- If appropriate, obtain and develop an Office capability to conduct future annual audits of Commission financial statements

Financial Management Performance

In the past, the Office focused its financial audit efforts on assessing the adequacy of internal controls and the performance of Commission accounting systems. For example, a significant attestation audit of Commission financial management internal controls is being used to focus Commission resources on strengthening control weaknesses in anticipation of the financial statement audits.

Over the next five years, the tests of financial controls will be performed as part of the annual financial statement audit. Our performance audits of financial systems will focus on the utility of financial information to Commission managers. In addition, we expect to continue to participate in government-wide efforts targeted to specific topics (e.g., workers compensation fraud, travel and credit card abuse). One senior auditor will divide her time between this objective and objective C above.

Strategies

- Assess the impact of financial management issues on the achievement of Commission goals and objectives
- Evaluate the best methods for implementing government-wide financial management initiatives in the Commission

GOAL 2: PROMOTE HIGH INDIVIDUAL AND AGENCY INTEGRITY

Objective A: Identify Impediments to Individual and Agency Integrity

The Office uses various means to assess Commission integrity. All new and exiting staff receive notices explaining the role of the Office of Inspector General and how to make complaints of misconduct. The Commission phonebook lists the Office's phone, room, and mail stop numbers. Moreover, we established an e-mail box (OIG@SEC.GOV) that facilitates our receipt of complaints about Commission staff or contractors from the general public. We also conduct workshops and interviews to gain a fuller understanding of how staff perceive integrity at the Commission.

We will continue to communicate with Commission ethics, personnel, and EEO functions to ensure effective coordination.

Strategies

- Ensure existing integrity intelligence gathering methods remain effective by periodic testing
- Explore improved ways to identify impediments to integrity
- Continue effective communication with other programs that promote integrity within the Commission

Objective B: Classify and Assign Allegations

Once allegations of misconduct or fraud are received, it is imperative that they be timely considered and assigned appropriately. Almost all allegations receive initial attention within three days of receipt. Typically, a discussion of the allegation among two or more investigative staff precedes the determination of how to proceed. If more information is needed to make that determination, it is obtained timely.

If an investigation is required, the case is assigned to one of the attorney/investigators or the Deputy Inspector General.

Strategy

- Make initial determinations and assignments on allegations within three working days

Objective C: Conduct Competent and Objective Investigations

The purpose of Office investigations is to gather evidence competently and objectively. Reports of investigation do not include conclusions as to guilt; nor do they recommend sanctions. Investigative steps may include reviewing documentation, interviewing witnesses, taking sworn testimony before a court reporter, or obtaining sworn, written statements. The Office independently refers evidence of criminal behavior to the Department of Justice, and evidence of misconduct to the Commission. All investigations comply with the Quality Standards for Investigations of the President's and Executive Councils on Integrity and Efficiency.

The Office strives to conduct its investigations fairly and impartially and to produce balanced, factual reports. It also seeks to protect the rights and reputation of the subjects of its investigations. Commission staff traditionally have been very cooperative in providing information to the Office, reflecting their concern for maintaining the Commission's integrity.

Strategies

- Arrange for triennial peer reviews of the Office's investigation program through the ECIE
- Explore ways to improve the timeliness of investigations, without diminishing quality

GOAL 3: DELIVER COST-EFFECTIVE, QUALITY SERVICE

Objective A: Maintain Effective Communications with Clients

Primary Stakeholders

The Inspector General Act requires that the head of the agency and Congress be kept fully and currently informed of Office activities and significant issues.

Regular, formal communication with the Chairman consists of monthly reports (Division Directors' Reports), quarterly Inspector General Advisory Committee briefings, and the OIG Semiannual Report. Informal communication takes several forms, including ad hoc meetings with the Chairman and/or his senior staff.

The Inspector General Semiannual Report to Congress is the most formal communication with Congress. The Inspector General Act prescribes detailed reporting requirements (*e.g.*, format, timeframes, structure, and performance measures). Other forms of communications include testimony, undertaking projects at the request of a Committee, or discussions with Committee staff.

Recipients

Commission managers and staff are important sources of information and intelligence used in the Office's planning and audit processes. Effective

communications help insure that we deliver practical, cost effective solutions to operational problems. Ultimately, achievement of Commission goals and objectives depends on the ability of staff and managers to overcome constraints and obstacles.

During audits, entrance and exit conferences, continuous dialogue, and requesting comments on preliminary drafts of audit reports facilitate this communication with managers and staff. During investigations, subjects are provided their rights and are afforded an opportunity to present their side of the issues. Brochures on internal audits, internal investigations, and the work of the Office are distributed to persons directly interacting with the Office to provide them with relevant information.

Central Agencies

The primary means of understanding new central agency initiatives is through active participation in the Executive Council on Integrity and Efficiency (ECIE). In addition to attending monthly meetings, participating in ECIE surveys, and informal phone and email contacts with other members, Office personnel serve on several ECIE committees, and have served as officers and in other capacities. Continued professional education and memberships in related professional associations (e.g., the Institute of Internal Auditors) also contribute to an enhanced understanding of government-wide management initiatives.

Strategies

- Explore ways to communicate more flexibly and effectively with Commission staff and managers
- Enhance communication with senior managers responsible for implementing Commission management initiatives
- Continue active participation in the ECIE and professional associations

Objective B: Continuous Quality Improvement

Office Staff

The continuous development of technically competent, motivated staff is critical to the achievement of the Office's goals and objectives. Typically, Office staff exceed training requirements cited in the standards we follow. Professional staff receive clear direction by Office management and are delegated all aspects of an assignment. This empowerment enhances accountability and job enrichment.

Work Products

Independent peer reviews of the quality of audits, inspections, and investigations ensure that the Office complies with applicable professional standards. We will also use feedback from our clients to increase the value and relevance of our workproducts.

Administration

The Office has been successful in minimizing overhead. Incorporating appropriate technologies and simplifying the audit and investigative processes (within the constraints of the respective standards) have allowed us to carry out our mission efficiently. Increased reliance on contractors may require additional resources for contract administration and project management to ensure that the contracts achieve their intended purposes.

Strategies

- Implement the Office's strategic plan
- Arrange for triennial quality assurance reviews for audits, investigations, and inspections offered through the ECIE
- Ensure that Office staff understand the Office's strategy, the Commission's goals and objectives, and applicable technologies
- Enhance Office contract administration to ensure that contract resources achieve Office goals and objectives

Performance Indicators

GOAL 1: MITIGATE OPERATIONAL IMPEDIMENTS TO ACHIEVING COMMISSION GOALS AND OBJECTIVES

- Achievement of Commission goals and objectives
- Enhanced understanding of impediments to achieving Commission goals and objectives
- Mitigation of operational impediments
- Improved efficiency and effectiveness of Commission operations

GOAL 2: PROMOTE HIGH INDIVIDUAL AND AGENCY INTEGRITY

- Commission staff understand agency expectations for individual and agency integrity
- Enhanced understanding and mitigation of impediments to achieving Commission integrity objectives
- Increased public trust in Commission staff and decisions
- Effective fraud prevention and detection efforts

GOAL 3: DELIVER COST-EFFECTIVE, QUALITY SERVICE

- The Chairman and Congress are fully and currently informed of Office activities
- The agency benefits from government-wide initiatives and technology transfers
- Office staff are recognized for their competence and professionalism